



Treasury Inspector General for Tax Administration

TAXPAYER SERVICE SAVINGS ESTIMATES FOR FISCAL YEARS 2006 AND 2007 COULD NOT BE VALIDATED

Issued on August 13, 2007

Highlights

Highlights of Report Number: 2007-40-125 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) estimated it would achieve more than \$160 million in Taxpayer Service savings from various reengineering and improvement projects and program efficiency initiatives to support the decrease in funding for Taxpayer Service in Fiscal Years 2006 and 2007. Neither the estimates nor the achievements could be validated. When budget savings are estimated without an adequate analysis of the effect on the level of taxpayer service, the resulting budgets may not provide the resources needed to provide sufficient service. This can also affect other IRS operations because funds must be later shifted between programs to meet operational requirements.

WHY TIGTA DID THE AUDIT

Approximately 87 percent of the IRS' Taxpayer Service budget is allocated to the Wage and Investment Division. The objective of the audit was to determine whether this Division accurately accounted for its estimated Taxpayer Service cost savings and program efficiency initiatives for Fiscal Years 2006 and 2007 and achievements for Fiscal Year 2006.

WHAT TIGTA FOUND

To support decreases in funding for Fiscal Years 2006 and 2007, the Wage and Investment Division estimated it would achieve approximately \$122 million and \$47 million in Taxpayer Service savings, respectively. For the most part, the methodologies for calculating almost \$23 million Taxpayer Service savings estimates for Electronic Filing Initiatives and Improvement Projects were documented based on records used to build the business cases and estimates. However, the savings estimates for over \$146 million in Taxpayer Service Reengineering and Taxpayer Service Program Efficiencies Initiatives were generally not supported and could not be validated.

The Wage and Investment Division had not adequately documented the methodologies used to calculate the savings. Source documentation had not been created or maintained, or not all data provided were accurate or the most current available, and some of the data were based on estimates and projections instead of actual data currently available. In addition, the Wage and Investment Division Strategy and Finance Office relied on other Division offices and functions to provide the documentation.

The lack of validation happened for many reasons, including the length and complexity of the budget process itself and not having a cost accounting system that can adequately capture costs at the activity or program level. In addition, the various components of the savings were calculated by different Wage and Investment Division offices and functions using different methods and rates. Finally, the data were not subjected to a quality review process.

Most of the \$122 million Taxpayer Service savings estimated for Fiscal Year 2006 were not achieved or could not be validated. The financial records system showed adjustments for the almost \$110 million savings estimated and allocated to the various Wage and Investment Division financial plans. Eventually, most of the funds were internally reallocated because legislation prohibited the IRS from taking certain actions, projects were cancelled or delayed, and savings did not materialize. The lack of sufficient management information and financial systems that capture activity costs hinders the Wage and Investment Division ability to determine whether it is meeting its performance goals.

WHAT TIGTA RECOMMENDED

The Commissioner, Wage and Investment Division, should (1) develop a thorough process for compiling the data used for the IRS' budget requests to help ensure the accuracy of the estimates and to facilitate a better understanding of the impact of budget reductions on operations and (2) evaluate the extent to which estimated savings are achieved as well as the impact on IRS operations of savings that are not achieved, to assist in formulating future budget submissions and allocations.

IRS management agreed with both of our recommendations. They agreed that many facets of the budget estimating process can be improved and plan to incorporate our suggestions for standardization and quality control into the Wage and Investment Division Strategy and Finance Office process.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740125fr.pdf>.

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037